Mohokare Municipality

Budget 2014/15 To 2016/17

Medium Term Revenue and Expenditure Framework

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Glossary

Adjustments Budget – Prescribed in section 28 of the MFMA. The formal means by which a municipality may revise its annual budget during the year.

Allocations – Money received from Provincial or National Government or other municipalities.

AFS- Annual Financial Statements

Budget – The financial plan of the Municipality.

Budget Related Policy – Policy of a municipality affecting or affected by the budget, examples include tariff policy, rates policy and credit control and debt collection policy.

Capital Expenditure - Spending on assets such as land, buildings and machinery. Any capital expenditure must be reflected as an asset on the Municipality's Statement of Financial Position.

Cash Flow Statement – A statement showing when actual cash will be received and spent by the Municipality. Cash payments do not always coincide with budgeted expenditure timings. For example, when an invoice is received by the Municipality it is shown as expenditure in the month it is received, even though it may not be paid in the same period.

CFO - Chief Financial Officer

DORA – Division of Revenue Act. Annual legislation that shows the total allocations made by national to provincial and local government.

Equitable Share – A general grant paid to municipalities. It is predominantly targeted to help with free basic services.

Fruitless and wasteful expenditure – Expenditure that was made in vain and would have been avoided had reasonable care been exercised.

GFS – Government Finance Statistics. An internationally recognised classification system that facilitates like for like comparison between municipalities.

GRAP – Generally Recognised Accounting Practice. The new standard for municipal accounting and basis upon which AFS are prepared.

IDP – Integrated Development Plan. The main strategic planning document of the Municipality

KPI's – Key Performance Indicators. Measures of service output and/or outcome.

MFMA – The Municipal Finance Management Act – No. 53 of 2003. The principle piece of legislation relating to municipal financial management.

MTREF – Medium Term Revenue and Expenditure Framework. A medium term financial plan, usually 3 years, based on a fixed first year and indicative further two years budget allocations. Also includes details of the previous three years and current years' financial position.

NT – National Treasury

Net Assets – Net assets are the residual interest in the assets of the entity after deducting all its liabilities. This means the net assets of the municipality equates to the "net wealth" of the municipality, after all assets were sold/recovered and all liabilities paid. Transactions which do not meet the definition of Revenue or
Expenses, such as increases in values of Property, Plant and Equipment where there is no inflow or outflow of resources are accounted for in Net Assets.

Operating Expenditure – Spending on the day to day expenses of the Municipality such as salaries and wages.

Rates – Local Government tax based on the assessed value of a property. To determine the rates payable, the assessed rateable value is multiplied by the rate in the rand.

R&M – Repairs and maintenance on property, plant and equipment.

SCM – Supply Chain Management.

SDBIP – Service Delivery and Budget Implementation Plan. A detailed plan comprising quarterly performance targets and monthly budget estimates.

Strategic Objectives – The main priorities of the Municipality as set out in the IDP. Budgeted spending must contribute towards the achievement of the strategic objectives.

Unauthorised expenditure – Generally, **s**pending without, or in excess of, an approved budget.

Virement – A transfer of budget.

Virement Policy - The policy that sets out the rules for budget transfers. Virements are normally allowed within a vote. Transfers between votes must be agreed by Council through an Adjustments Budget.

Vote – One of the main segments into which a budget is divided. In Mohokare Municipality this means at directorate level.

PART 1 – ANNUAL BUDGET

Section 1 – Mayor’s Budget Speech

Past performance

During the past 3 years Mohokare received a disclaimer from the Auditor General we have since improved to a Qualified Audit opinion for the 2012/13 financial year end. Mohokare Municipality has, in respect of the 2013-14 year budgeted for a deficit of R22 million (including non-cash flow items). The adjustment budget reflects a deficit of R28 million (Including non-cash flow items).

Budget Summary

The budget for 2014/15 contains a provision of R5.8 million for free basic services. These services are off-set from the equitable share. Provision is made for 2 500 applicants

Economically Mohokare remains weak. Fundamentally we are an agriculture and tourist region which exists next to Lesotho. We have established a LED desk in order to maximise the potential of the municipality.

A stroll through town shows a slow deterioration of the business area. The guest-house industry reports a marked slow-down in respect of turnover. No less an authority than the Economist magazine has said “that even when an economy recovers there is generally an 18-24 month lag before cities feel it”. In Mohokare’s case that 18-24 has already lengthened to 26-48 months.

The continued poor state of the roads linking Zastron to Lesotho and Eastern Free State remains an absolute travesty for Mohokare.

Cash Flow

For the past years Mohokare was handicapped with a poor cash-flow. This has resulted in poor maintenance of especially the infrastructure. The pot-holes in the various towns are a matter of concern.
This problem is addressed in the following year’s budgets as both the budgeted deficits and the poor cash flow as a result of a low collection rate, will be addressed. In order to achieve the budgeted results, the Finance Section will need to be strengthened regarding the control of debt collection as well as the roll-out of indigent benefits.

This budget is premised on a 70% payment level. This is based on the commitment made to the stake-holders during the community participation phase that the council will take strong measures to ensure that this target is achieved.

A concerted effort will also be made to collect long-outstanding debt, i.e. debt older than 6 months. On the strength of this an amount of R7 million is expected to be collected from the outstanding arrears of R100 million. Our credit control actions will be in terms of our policy, and will be targeted and backed by good data management.

Capital Budget

The capital budget for 2014/15 will total R73 million of which R65 million is funded from national grants and R8 million from the operating account.

Operating Expenditure

In his recent budget speech the Minister of Finance stated "*the vision for the future is abundantly clear. We want to have a country where millions more South Africans have decent employment opportunities, which has a modern infrastructure and vibrant economy and where the quality of life is high*". This he followed up with the statement that *"we can do more – with less"*

The budgeted % salary increase of 6.9% is in line with the NT prescriptions. Any higher increase as a result of any bargaining council agreement will be attended to in the adjustment budget.

The following concerns needs to be raised:

1. The expenditure on salaries is, after the review, 23% of the operating budget. This is a matter of concern, as our own generated funds is less than the salary bill, and as a result we are reliant on the equitable share to fund the balance of the salary bill.
2. We are not in a position to contribute to infrastructure capital expenditure. This brings about that our infrastructure to render basic services do not get the necessary attention it deserves.
3. The budgeted loss as a result of possible bad debts in respect of the current years billing, amounts to R15 million rand. This matter needs to be addressed early in the budgeted year.

Operating Revenue

Local government is in essence funded from three sources: assessment rates, revenues from trading services (the majority from Water in Mohokare's case) and transfers from national government.

The percentage revenue from the various sources is as follows:

Own generated income	37%
Operating Grants	30%
Capital Grants	33%
TOTAL	100%

The municipality is still greatly reliant on grants as set out above.

Tariff implications of the annual budget

Water Tariff

The water tariff increase for domestic consumers will be 10% on the basic charge and 10% on the consumption charge. For business consumers it will be 10% on the basic charge and also 10% on consumption.

The reasons for these increases above the guidelines as set by National

Treasury, is that the water service is running at a loss and that a gradual increase in tariffs must minimize the loss in respect of future years.
This loss is generated even if no administration costs are charged out.

Technically, to balance the water service in future years, an increase of some 10% in the tariff would be required.

Assessment Rates

The assessment rate will rise by 10% for domestic rate payers and 10% for businesses. There is a tendency for many municipalities to charge businesses as much as three times that of domestic rates. The major cities grouping have been petitioning SALGA and the relevant national department to allow the rate spread to be as much as four and possibly even five times.

The ratio in Mohokare will only be 1:1.4 for the next year. We need to encourage business development and relocation to Mohokare and not chase it away and contrary to popular opinion in the business community our assessment rate charge is actually very low.

Refuse and Sewer Tariff

The refuse and sewerage tariffs will increase by 10% for domestic and 10% for business. These are higher than the National Treasury inflation estimates of 5.9%.

Budget-related policies

The budget related policies, as attached formed the base of the proposed budget.
The salient points of the proposed budget are that the budget must be cash-funded, tariff adjustments must be fair, employee related costs must be all inclusive and the conditions of all provisions must be cash met where required.

Conclusion

We still face many challenges, especially regarding efficient service delivery and cash-flow.

Notwithstanding the above this budget mitigates as far as possible the rate and tariff burden on our domestic and business customers and allows us breathing space to move forward.

In the re-drafted Credit Control Policy accompanying this MTREF for Council approval, are a number of specific amendments which have been made to minimise debt including:

- the reduction or discounting of interest charges in full and final settlement of arrears;
- the recovery of arrear rates from the tenant, occupier or agent of a property instead of the owner to an amount equal to the rent payable, as is allowed in the Municipal property Rating Act;
- the steps to be taken to ensure that those employees in arrear

with their account, will need to bring the account up to date; and

- collecting outstanding account balances as part of a percentage of electricity sales.

Council has started to implement legal procedures, but this needs to be taken to a phase which can be described as the iron fist in a velvet glove approach.

I thank all the individuals and groupings that have taken the time to input into this budget. My thanks to the Municipal Manager and his staff for their hard work and dedication and my thanks to the Chief Financial Officer and his staff who put the budget together.

I HEREWITH PRESENT THE 2014/2015 BUDGET FOR APPROVAL.

Section 2 – Budget related resolutions

PROPOSED

[a]. That the annual budget of Mohokare Municipality for the financial year 2014/2015; and indicative for the two projected years 2015/16 and 2016/17, as set-out in the schedules contained in SECTION 4 be approved:

1.1 Table A2: Budgeted Financial Performance (expenditure by standard classification)

1.2 Table A3: Budgeted Financial Performance (expenditure by municipal vote)

1.3 Table A4: Budgeted Financial Performance (revenue by source)

1.4 Table A5: Budgeted Capital Expenditure for both multi-year and single year by vote, standard classification and funding

[b]. Property rates reflected in Annexure 3 are imposed for the budget year 2014/2015.

[c]. Tariffs and charges reflected in Annexure 3 are approved for the budget year 2014/2015.

[d]. The following policies, as reflected in Annexure 5 are approved:

Budget Related Policies

1. Indigent Policy
2. Rates Policy
3. Credit Control Policy
4. Tariff Policy

Other Finance Policies

5. Banking and Investment Policy
6. Supply Chain Management Policy

Grap related Policies

7. Accounting Policy
8. Asset Management Policy

[e]. That the Accounting Officer be delegated to adjust the Accounting- and Asset Management Policies in accordance with the requirements of GRAP standards whenever necessary, and that such changes be incorporated into the next report of reviewed budget related policies.

Section 3 – Executive Summary

Introduction

In assisting in the compilation of this MTREF, National Treasury Circulars No. 70 and 72 were used where necessary.

Background

In the background to the 2010/11 MTREF concern was raised about "the failure of national government to understand that the financing of local government is archaic and totally unsuitable for the 21st century. Sadly, there is little that has changed in the last year and clearly there is little that is going to change in the forthcoming year".

Remarkably however, there has been some comment on this front but sadly for all the wrong reasons. The Minister for Cooperative Governance and Traditional Affairs, whilst having to deal with the billing debacle in Johannesburg, raised the prospect of SARS taking over the billing of municipal services. Whilst there is little chance of this happening in respect of water and electricity, the issue of billing and collecting assessment rates should be looked at more closely if only because it would force municipalities to ensure that property valuations become fully market related and comparable— something that one would have thought that National Treasury would welcome.

The Minister's comments also raise the issue that the services of water and electricity need to be regionalised and removed from local government into Boards, simply because the capital costs required to keep them functioning are well beyond the capability of most municipalities. The water supply issue in our area has been addressed by the Rouxville bulk water project.

Financial position and MTREF strategy

The financial position of Mohokare Municipality is such that the funding of the service delivery program depends on a steady flow of cash. The salary component must be curtailed, and steps to be taken to ensure that there is not a waste of man-power anywhere.

Cash Flow

Mohokare's budget is driven to ensure the cash flow is protected as far as possible. That often means hard decisions that perhaps are often not appreciated or liked by Councilors and, more especially, staff. Councilors have been supportive in ensuring the survival of the municipality and understand the approach taken. No Council may borrow its way out of trouble as it could in the past. Today if a Council gets into financial difficulties then National Treasury and provincial governments step in. It is believed that there are between 30-50 authorities nation-wide under "administration" in this way. Obviously this is not a route to follow as all that can happen is that staff will continue to get paid but no services delivered.

This budget is premised on a 70% payment level. This is based on the premise of drastic improvement in the management of debt. The recovery of arrears will be one of the projects to ensure the rendering of services. Our credit control actions are not harsh but measured and targeted and backed up by good data management.

Capital Budget

The capital budget for 2014/15 will total R73 million of which R65 million is funded from national and provincial grants and R8 million from internally generated funds. The various projects are set out in 'Annexure 2: Supporting Table SA36'.

Operating Expenditure

In his 2011-12 budget speech the Minister of Finance stated "the vision for the future is abundantly clear. We want to have a country where millions more South Africans have decent employment opportunities, which has a modern infrastructure and vibrant economy and where the quality of life is high".

This approach was reinforced in the municipal budget circular regarding this budget which re-emphasised the role of local government:

- to support decent employment through inclusive economic growth;
- to create an enabling environment for investment by streamlining planning application processes;
- to ensure proper maintenance and rehabilitation of essential services infrastructure;
- to ensure proper implementation of the EPWP at municipal level;
- to design service delivery processes to be labour intensive;
- to improve procurement systems to eliminate corruption and ensure value for money and
- to utilise community structures to provide services.

This budget continues the emphasis and drive begun internally last year to promote job creation. In addition Council now requires that tenderers must employ local labour as far as possible.

OPERATING EXPENDITURE

The schedule Finance performance follows, and the expenditure is adapted to indicate the relation between the various expenditure items.

Expenditure	Budget Year 2014/15	Budget Year +1 2015/16	Budget Year +2 2016/17	% of Total Operating Expenditure	% of Total Operating Expenditure	% of Total Operating Expenditure
Employee related costs	51 414 036.05	54 510 718.29	58 264 422.24	22%	21%	27%
Remuneration of councillors	3 183 481.01	3 403 141.19	3 637 957.94	1%	1%	2%
Debt Impairment	9 563 265.92	10 041 429.22	10 041 429.22	4%	4%	5%
Free Basic Services	5 763 131.10	6 183 246.51	6 620 019.91	2%	2%	3%
Depreciation & Asset impairment	28 427 184.00	31 269 902.40	34 396 892.64	12%	12%	16%
Finance charges	2 270 000.00	2 403 930.00	2 536 146.15	1%	1%	1%
Bulk purchases	18 000 000.00	19 800 000.00	21 780 000.00	8%	8%	10%
Other Materials	-	-	-	0%	0%	0%
Contracted services	7 588 135.00	8 055 472.07	8 523 148.28	3%	3%	4%
Transfers and Grants	-	-	-	0%	0%	0%
Other Expenditure	32 187 917.46	33 221 382.19	35 296 164.19	14%	13%	16%
Capital Expenditure	72 435 712.00	94 947 224.07	33 006 201.15	31%	36%	15%
Loss on disposal of PPE	-	-	-	0%	0%	0%
Total Operating Expenses	230 832 862.53	263 836 445.94	214 102 381.71	100%	100%	100%

Surplus / (Deficit)	-33 308 873.95	-32 964 947.98	-38 363 215.38
Non-Cash Expenses	33 335 760.00	33 123 152.40	36 352 071.39
Cash (shortage) / Surplus	26 886.05	158 204.42	-2 011 143.99

The expenditure on salaries is, as a result of the consultation process and corresponding review 23% of the operating expenditure. This remains a matter of concern, as our own generated funds is less than the salary bill, and as a result we are reliant on the equitable share to fund the balance of the salary bill.

The provision for debt impairment, which is the budgeted amount that will not be received, amounts to R15 million.

To counter this, it is budgeted that an amount of R7 million will be received in respect previous years long outstanding amounts. It is estimated that of the R100 million outstanding, R45 million could be considered collectable. The necessary urgency will be given to implementing the relevant policy.

OPERATING REVENUE

Local government is in essence funded from three sources. Assessment rates, revenues from trading services and transfers from national government.
Here follows a schedule setting out the various revenue components of the operating budget.

Revenue By Type	Budget Year 2014/15	Budget Year +1 2015/16	Budget Year +2 2016/17	% of Total Operating Expenditure	% of Total Operating Expenditure	% of Total Operating Expenditure
Property Rates	13 970 530.80	15 367 583.88	16 904 342.26	19%	19%	19%
Refuse Removal	5 839 350.40	6 423 285.44	7 065 613.99	8%	8%	8%
Water Levies	9 899 703.00	10 889 673.30	11 978 640.63	14%	14%	14%
Electricity sales	23 500 000.00	25 850 000.00	28 435 000.00	32%	32%	32%
Sewerage Levies	8 701 274.24	9 571 401.66	10 528 541.83	12%	12%	12%
Rental Income	602 313.80	644 669.18	688 358.52	1%	1%	1%
Finance charges	622 402.38	684 370.73	752 491.79	1%	1%	1%
Traffic Fines	3 000 000.00	3 177 000.00	3 351 735.00	4%	4%	4%
VAT Receival	6 157 710.00	6 773 481.00	7 450 829.10	8%	8%	9%
Other Income	380 703.97	360 182.77	392 026.47	1%	0%	0%
Total Operational Revenue	72 673 988.59	79 741 647.96	87 547 579.58	100%	100%	100%

ALLOCATION OF SURPLUS AND RECOGNISING OF CAPITAL TRANSFERS

ALLOCATION OF SURPLUS & CAPITAL TRANSFERS	Budget Year 2014/15	Budget Year +1 2015/16	Budget Year +2 2016/17
Surplus/(Deficit)	-33 308 873.95	-32 964 947.98	-38 363 215.38
Transfers recognised – capital	-64 318 900.00	-90 108 550.00	-27 970 150.00
Contributions recognised – capital	64 318 900.00	90 108 550.00	27 970 150.00
Contributed assets	8 116 812.00	4 838 674.07	5 036 051.15
Surplus/(Deficit) after capital transfers & contributions	**-25 192 061.95**	**-28 126 273.91**	**-33 327 164.24**
Taxation	-	-	-
Surplus/(Deficit) after taxation	**-25 192 061.95**	**-28 126 273.91**	**-33 327 164.24**
Attributable to minorities	-	-	-
Surplus/(Deficit) attributable to municipality	**-25 192 061.95**	**-28 126 273.91**	**-33 327 164.24**
Share of surplus/ (deficit) of associate	-	-	-
Surplus/(Deficit) for the year	**-25 192 061.95**	**-28 126 273.91**	**-33 327 164.24**

It is noted that the budget is sustainable, in that the known expenditure is recognized.

Tariff implications of the annual budget

Water Tariff

The water tariff increase for domestic consumers will be 10% on the basic charge and 10% on the consumption charge. For business consumers it will be 10% on the basic charge and also 10% on consumption.

The reasons for these increases above the guidelines as set by National Treasury, is that the water service is running at a loss and that a gradual increase in tariffs must minimize the loss in respect of future years.

This loss is generated even if no administration costs are charged out.

Technically to balance the water service in future years, an increase of some 10% in the tariff would be required.

Assessment Rates

The assessment rate will rise by 10% for domestic rate payers and 10% for businesses. There is a tendency for many municipalities to charge businesses as much as three times that of domestic rates. The major cities grouping have been petitioning SALGA and the relevant national department to allow the rate spread to be as much as four and possibly even five times.

The ratio in Mohokare will only be 1:1.4 for the next year. We need to encourage business development and relocation to Mohokare and not chase it away and contrary to popular opinion in the business community our assessment rate charge is actually very low.

Refuse and Sewer Tariff

The refuse and sewerage tariffs will increase by 10% for domestic and 10% for business. These are higher than the National Treasury inflation estimates of 5.9%.

Budget-related policies

The budget related policies, as attached, formed the base of the proposed budget.
The salient points of the proposed budget are that the budget must be cash-funded, tariff adjustments must be fair, employee related costs must be all inclusive and the conditions of all provisions must be cash met where required.

National, Provincial & District priorities

The National, Provincial and District Context

The Municipality's budget must always be seen within the context of the policies and financial priorities of National and Provincial government. All spheres of Government are partners in meeting the service delivery challenges we face in Mohokare and the municipality cannot meet these challenges alone. South Africa has achieved considerable success in reaching the current level of macroeconomic stability, but our own local economy is still plagued with high levels of unemployment and poverty.

The following table shows the allocations to Mohokare Municipality as set out in the National Division of Revenue Act of 2014 in the MTREF period as well as grants from COGTA and LG SETA;

DESCRIPTION	2014/15	2015/16	2016/17
TRANFER RECOGNISED - OPERATIONAL			
NT Grant – Equitable Share	52 966 000	54 825 000	53 784 000
NT Grant – FMG	1 800 000	1 950 000	2 100 000
NT Grant – MSIG	934 000	967 000	1 018 000
NT Grant – EPWP	1 033 000	0	0
COGTA Grant	2 775 000	2 220 000	2 220 000
LG SETA Grant	150 000	158 850	167 587
TOTAL TRANSFER RECOGNISED - OPERATIONAL	**59 658 000**	**60 120 850**	**59 289 587**
TRANSFER RECOGNISED - CAPITAL			
NT Grant - MIG;	17 462 000	18 009 000	18 637 000
NT Grant - INEPG (Municipal)	0	5 000 000	5 000 000
Regional Bulk Infrastructure Grant	40 000 000	63 000 000	0
NT Grant – MWIG	7 730 000	5 000 000	5 265 000
TOTAL TRANSFER RECOGNISED - CAPITAL	**65 192 000**	**91 009 000**	**28 902 000**
TOTAL REVENUE	**124 850 000**	**151 129 850**	**88 191 587**

Provincial Grants

Nil

District Municipality

Nil

Conclusion

The budget is the first tentative step in the turn-around of the municipality.

All efforts have been made, including a successful consultative period to ensure that this budget mitigates as far as possible the rate and tariff burden on our domestic and business customers and allows us breathing space to move forward.

Section 4 – Annual budget tables

The intention of this Section is two-fold.

Firstly, the following tables form the basis of the Council resolution approving the annual budget for 2014/2015:

- Table A2: Budgeted Financial Performance (expenditure by standard classification)
- Table A3: Budgeted Financial Performance (expenditure by municipal vote)
- Table A4: Budgeted Financial Performance (revenue by source)
- Table A5: Budgeted Capital Expenditure for both multi-year and single year appropriations by vote, standard classification and funding

Secondly, this section presents and explains the various tables that must be compiled as required by National Treasury. Some of the tables are variations on a theme which will allow NT to put out macro statistics. Whilst this is a good practice, it can also be a touch meaningless. It has therefore been decided to only comment on a table when there is something important or relevant to say.

Table A2 - Budgeted Financial Performance (by standard classification)

The Table will be submitted as part of an amendment.

Table A3 - Budgeted Financial Performance (revenue and expenditure by municipal vote)

The Table will be submitted as part of an amendment.

Please note that as from this year, the expenditure will be shown within each directorate.

Table A4 - Budgeted Financial Performance (revenue and expenditure)

The Table will be submitted as part of an amendment.

Please note that the Items & Maintenance and Capital Payments have been added below the table so as to give a complete picture of the performance of the municipality

Table A5 - Budgeted Capital Expenditure by vote, standard classification and funding

The Table will be submitted as part of an amendment.

The Capital expenditure is set out per Managerial Vote.

PART 2 – SUPPORTING DOCUMENTATION

Section 5 – Overview of annual budget process

Annual planning processes

The operating budget has been driven totally on the premise of cash flow and consumer affordability. Throughout South Africa there are municipalities in financial meltdown because of bad budgeting and by extension bad financial management. A bad budget automatically leads to increased non-payment and pressured cash flows. Throw in an economic downturn compounded by Eskom and the effect of greater than CPI remuneration increases and the probability is the municipality will be in serious financial difficulty very quickly.

Mohokare's operating budget for 2014/15 remains fixated on enhancing the cash flow and striving to increase our payment ratio to 80%

Budget Process 2014/15

The budget process followed the requirements of the MFMA. A schedule of key deadlines was prepared for tabling in Council by the Mayor prior to the end of August 2013

The final budget will be tabled in Council on 28 May 2014.

The final budget has to be approved by Council on this date.

The Municipality's budget is prepared on a three year basis. This takes into account the National and Provincial three year allocations to the Municipality. The MFMA requires municipalities to prepare three year budgets to ensure more thorough financial planning and provide for seamless service delivery. Additionally the National Treasury Budget Circulars request local government to highlight their projected increases over the next three years to give some certainty to its customers.

The municipality sets out measurable performance objectives to link the financial inputs of the budget to service delivery on the ground. This is done in the form of quarterly service targets and monthly financial targets that are contained in the Service Delivery and Budget Implementation Plan (SDBIP). The plan must be agreed by the Mayor within 28 days of approval of the final budget and forms the basis for the Municipality's in year monitoring.

Section 6 – Overview of alignment of the annual budget with the Integrated Development Plan

Introduction

Municipalities are required to develop five year Integrated Development Plans which must be reviewed annually. It is also required that such plans must find expression in the Budget. The IDP and the budget are inter-related documents. The IDP is the budget in words, just as the budget is the IDP in figures. In this budget comprehensive efforts have been towards ensuring that the two documents are linked.

Problem Statement

It has been acknowledged that IDPs are still not particularly successful in setting out what is required on the ground. In the Provincial Governments Draft Strategic Plan the following was noted:

"After more than a decade of municipal integrated development planning, IDPs still include the capital spending priorities of municipalities alone. Furthermore, IDPs do not pay enough attention to the planning priorities and development strategies of provincial departments and relevant national departments. Similarly, national and provincial departments have not done enough to ensure that municipalities' priorities are included in their annual performance plans and budgets.

Separate, uncoordinated planning and budgeting processes and different planning structures and mechanisms have contributed to a lack of integrated planning and delivery at grassroots level. In addition, national and provincial service delivery boundaries have not been fully aligned with municipal boundaries, leading to different sets of information. This often makes it impossible for the three spheres of government to communicate, plan and implement properly. In addition, departments are not organised on a regional basis, so municipalities find themselves communicating with different officials over time on the same issues."

This is also acknowledged by the National Treasury who have embarked on creating a Standard Chart of Accounts (SCOA) for all municipalities which will have as an integral part, a section entitled "Projects" that allows for more meaningful financial reporting on the key programs and projects intrinsic to the IDP.

The Mohokare Municipality has a vision which drives the Integrated Development Plan namely that of

"To be a community driven municipality that ensures sustainable quality service delivery applying principles of good governance"

Sustainable quality service delivery

Our greatest challenge has been to build our own absorptive capacity in order to ensure that we maintain a more than basic service delivery. Critical to this is ensuring that the infrastructure do not deteriorate further. Maintenance of existing assets is of primary importance.

The challenge of promoting Local Economic Development

The need for the diversification of the local economy through facilitating the emergence of previously underperforming sectors is an important catalyst for economic development. Our Local Economic Development strategy focuses on mainstreaming the previously disadvantaged people. Crucial to this is the need to work in partnership with relevant stakeholders in boosting employment and fostering SMMEs.

The challenge of ensuring municipal financial viability

A municipality lives and dies by its ability to balance needs with resources. Mohokare Municipality cannot generate sufficient resources to properly satisfy all its needs. Therefore those needs will have to be managed and dealt with in a financially sustainable manner. Promises of quick and easy solutions are simply lies.

vi. The challenge of municipal transformation and institutional development

Staff development is crucial to meet the challenges of Mohokare and the new ethos of local government. The Employment Equity imperatives have to be assessed continually to ensure that Mohokare Municipality's transformation remains in line with the broader transformation agenda of South Africa. Included in this must be an accelerated emphasis on growing and developing our own timber. Mohokare does not have the luxury of competing in terms of salary and therefore our ability to attract qualified and quality staff is severely limited. We must therefore develop from within.

vii. Public Participation

Public Participation is an important feature of any democratic environment. Although the legislative environment provides adequately for public participation, Mohokare Municipality is challenged to ensure that it continues to build on its successes over the last few years.

Section 7 – Budget related policies

The detailed policies themselves are not included in this section of the budget documentation.

See Annexure 6 to this document for the full policies.

Budget Related Policies

1. Indigent Policy
2. Rates Policy
3. Credit Control Policy
4. Tariff Policy

Other Finance Policies

5. Banking and Investment Policy
6. Supply Chain Management Policy

Grap related Policies

7. Accounting Policy
8. Asset Management Policy

Accounting Policy

In terms of Section 126(1) of the MFMA it is the duty of the Accounting Officer to compile the annual financial statements.

The Accounting Policy is an integral part of the financial statements and is in our opinion, in the current situation of changing accounting standards (GRAP), a policy which continuously evolves. Due to the fact that clarification on some of these standards from the Accounting Standards Board, The National Treasury and the Auditor–General is only forthcoming at a very late stage of the financial year, it is deemed that the Accounting Officer should be delegated to adjust the Accounting Policy as and when it is required by a Standard of GRAP or on instruction from one of these bodies.

Asset Management Policy

In terms of Section 63 of the MFMA the Accounting Officer must manage the assets of the municipality, and ensure that they are valued in accordance with the requirements of GRAP.

The municipality's Asset Management Policy provides for the measurement of all assets of the municipality. As indicated above, the standards continuously change, and we are currently in the situation of unbundling infrastructure assets. This process is not yet complete, and it will be necessary to adjust the current measurement basis contained in the Asset Management policy e.g. useful lives, when it is completed but by 30 June 2014. It is therefore also a policy which changes continuously as GRAP standards change.

For this specific reason the following resolution has been included with the budget resolutions:

That the Accounting Officer be delegated to adjust the Accounting- and Asset Management Policies in accordance with the requirements of GRAP standards whenever necessary, and that such changes be incorporated into the next report of reviewed budget related policies.

Rates, tariffs, charges and timing of revenue collection

The rates, tariffs and charges for the 2014/15 budget are included in Annexure 3.

The following table shows the assumed average *domestic* percentage increases built into the MTREF for rates, tariffs and charges:

	2014-15	2015-16	2016-17
Rates	10.0%	10.0%	10.0%
Housing	10.0%	10.0%	10.0%
Refuse	10.0%	10.0%	10.0%
Sewerage	10.0%	10.0%	10.0%
Water	10.0%	10.0%	10.0%

Collection rates for each revenue source and customer type

The Municipality has in place a fair but rigorous credit control policy. Furthermore, its policy on indigent support and social rebates means that many households who would normally struggle to pay their accounts receive free or subsidised basic services thereby keeping them free of the burden of municipal debt.

Nevertheless, there will always be an element of the total amount billed that will remain uncollected. The Municipality is the same as any other business in this regard. Adequate provision has to be made in the budget for any bad debts based on assumptions on collection rates.

The following bad debt provisions and collection rates are assumed in the MTREF for rates and tariffs.

	2014-15	2015-16	2016-17
Provision for bad and doubtful debts	9 537 085.00	10 013 939.25	10 013 939.25
Assumed collection rate (%)	70%	70%	70%

Trends in demand for free or subsidised basic services

Mohokare's criteria for supporting free or subsidised basic services are set out in the indigent support and social rebate policy. The Government allocates revenue via the Division of Revenue Act (DORA) in the form of the Equitable Share.

	2014-15	2015-16	2016-17
Revenue cost of free services	5 763 131.00	6 183 246.51	6 620 019.91

Section 8 – Overview of budget funding

Funding the Budget

Section 18(1) of the MFMA states that an annual budget may only be funded from:

- Realistically anticipated revenues to be collected;
- Cash backed accumulated funds from previous years' surpluses not committed for other purposes; and
- Borrowed funds, but only for the capital budget referred to in section 17.

Achievement of this requirement in totality effectively means that a Council has 'balanced' its budget by ensuring that budgeted outflows will be offset by a combination of planned inflows.

Section 9 – Councilor allowances and employee benefits

Refer to Annexure 2, ‘Supporting Table SA22: Summary councilor and staff benefits’ and ‘Supporting Table SA23: Salaries, allowances & benefits (political office bearers/councilors/senior managers)’ for further details.

The salary increase for 2014/15 for managers and staff is budgeted at 6.9% increase on the 2013/2014 adjusted budget resulting in a total cost of R51.4 million.

At this point there is no final clarity on the wage award. Any changes to the budget in this regard will be tabled before Council for approval as part of the Adjustments Budget in February 2015.

Section 10 – Monthly targets for revenue, expenditure and cash flow

Disclosure on monthly targets for revenue, expenditure and cash flow is made in Annexure 2 in the following Supporting Tables:

Monthly operating budget revenue and expenditure projections

'Supporting Table SA25: Budgeted monthly revenue and expenditure' reflects consolidated projections of revenue by source and expenditure by type for the budget year broken down per month for the budget year, and shown in total for the following two years.

'Supporting Table SA26: Budgeted monthly revenue and expenditure (municipal vote)' and 'Supporting Table SA27: Budgeted monthly revenue and expenditure (standard classification)' reflects revenue and expenditure broken down per month for the budget year, and shown in total for the following two years.

Monthly capital budget revenue and expenditure projections

'Supporting Table SA28: Budgeted monthly capital expenditure (municipal vote)' and 'Supporting Table SA29 Budgeted monthly capital expenditure (standard classification)' show capital expenditure broken down per month for the budget year, and shown in total for the following two years.

Monthly cash flow projections

'Supporting Table SA30: Budgeted monthly cash flow' sets out receipts by source and payments by type for both operating and capital, broken down per month for the budget year, and shown in total for the following two years.

Budgeted household accounts

'Supporting Table SA14: Household bills' compiles the data for the monthly budgeted account for household income analysis, per small and large household.

Section 11 – Annual budgets and service delivery and budget implementation plans – internal departments

Adoption of the Service Delivery and Budget Implementation Plan

In terms of section 53(1)(c)(ii) of the MFMA the Service Delivery and Budget Implementation Plan must be approved by the Mayor within 28 days after the final approval of the budget.

Contents of the SDBIP

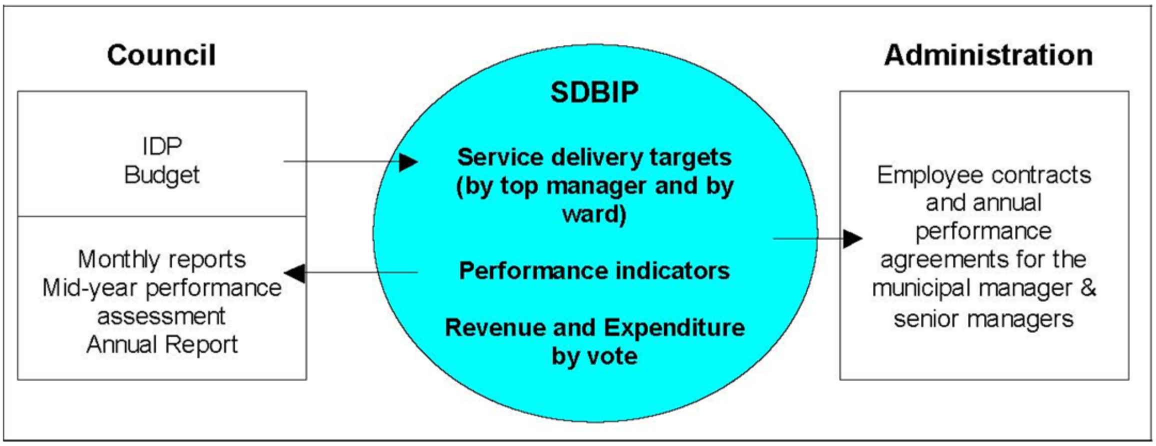
The SDBIP must contain monthly projections of income and expenditure and quarterly projections of measurable performance objectives.

Some annual targets are still to be confirmed. These will be included in the final SDBIP.

SDBIP requirements

The SDBIP is essentially a business plan and is an integral part of the financial planning process. Although its approval is required after the budget, its preparation occurs in tandem with the budget process. The SDBIP is the connection between the strategic plan, IDP, budget and management performance agreements, and includes detailed information on how the budget will be implemented, by means of forecast cash flows and service delivery targets and performance indicators. The schematic below sets out its importance as set out in NT circular 13.

Diagram SDBIP "contract"



National and Provincial Government refer to five national KPAs they regard as essential to Local Authorities meeting their responsibilities these are:

1. Institutional Transformation and Financial Viability
2. Environmental Planning and Management
3. Infrastructure Development
4. Community Services
5. Local Economic Development

In addition Local Government Turnaround Strategy (LGTAS) has identified six key thematic problem areas that need to be addressed in varying degrees by municipalities:

1. Service delivery
2. Spatial conditions
3. Governance
4. Financial Management
5. Local Economic Development
6. Labour Relations

Way forward

The existing and proposed performance indicators for 2014/2015 will be reviewed during the last quarter of the 2014/2015 SDBIP cycle and any amendments will be included in the SDBIP for the Mayor's approval.

In terms of section 53(1)(c)(ii) of the MFMA the comprehensive Service Delivery and Budget Implementation Plan will be approved by the Mayor within 28 days after the final approval of the budget.

Section 12 – Legislation compliance status

The disclosure on legislation compliance must provide a brief summary of the status of the implementation of legislation applicable to municipalities, including progress made or delays experienced in implementation.

Municipal Finance Management Act - No 56 of 2003

The MFMA became effective on 1st July 2004. The Act modernises budget and financial management practices within the overall objective of maximising the capacity of municipalities to deliver services.

The MFMA covers all aspects of municipal finance including budgeting, supply chain management and financial reporting.

The various sections of the Act are phased in according to the designated financial management capacity of municipalities. Mohokare has been designated as a medium capacity municipality.

The MFMA is the foundation of the municipal financial management reforms which municipalities are implementing. Mohokare was designated as a pilot municipality for the reforms and is engaged in a partnership arrangement with National Treasury.

The MFMA and the budget

The following explains the budgeting process in terms of the requirements in the MFMA. It is based on National Treasury's guide to the MFMA.

The budget preparation process

The Mayor must lead the budget preparation process through a co-ordinated cycle of events that commences at least ten months prior to the start of each financial year.

Overview

The MFMA requires a Council to adopt three-year capital and operating budgets that take into account, and are linked to, the municipality's current and future development priorities and other finance-related policies (such as those relating to free basic service provision).

These budgets must clearly set out revenue by source and expenditure by vote over three years and must be accompanied by performance objectives for revenue and expenditure, a cash flow statement and any particulars on borrowings, investments, municipal entities, service delivery agreements, grant allocations and details of employment costs.

The budget may be funded only from reasonable estimates of revenue and cash-backed surplus funds from the previous year and borrowings (the latter for capital items only).

Budget preparation timetable

The budget preparation timetable is prepared by senior management and tabled by the Mayor for Council adoption by 31 August (ten months

before the commencement of the next budget year).

Budget preparation and review of IDP and policy

The Mayor must co-ordinate the budget preparation process and the review of Council's IDP and budget-related policy, with the assistance of the municipal manager.

The Mayor must ensure that the IDP review forms an integral part of the budget process and that any changes to strategic priorities as contained in the IDP document have realistic projections of revenue and expenditure. In developing the budget, the management must take into account national and provincial budgets, the national fiscal and macro-economic policy and other relevant agreements or Acts of Parliament. The Mayor must consult with the relevant district Council and all other local municipalities in that district as well as the relevant provincial treasury and the National Treasury when preparing the budget, and must provide the National Treasury and other government departments with certain information on request.

This process of development should ideally occur between August and November, so that draft consolidated three-year budget proposals, IDP amendments and policies can be made available during December and January. This allows time during January, February and March for preliminary consultation and discussion on the draft budget.

Tabling of the draft budget

The initial draft budget must be tabled by the Mayor before Council for review by 31 March.

Publication of the draft budget

Once tabled at Council, the Municipal Manager must make public the appropriate budget documentation and submit it to National Treasury and the relevant provincial treasury and any other government departments as required. At this time, the local community must be invited to submit representations on what is contained in the budget.

Opportunity to comment on draft budget

When the draft budget is tabled, Council must consider the views of the local community, the National Treasury and the relevant provincial treasury and other municipalities and government departments that may have made submissions on the budget.

Opportunity for revisions to draft

After considering all views and submissions, Council must provide an opportunity for the Mayor to respond to the submissions received and if necessary to revise the budget and table amendments for Council's consideration.

Following the tabling of the draft budget at the end of March, the months of April and May should be used to accommodate public and government comment and to make any revisions that may be necessary. This may take the form of public hearings, Council debates, formal or informal delegations to the National Treasury, provincial treasury and

other municipalities, or any other consultative forums designed to address stakeholder priorities.

Adoption of the annual budget

The Council must consider the approval of the budget by 1 June and must formally adopt the budget by 30 June. This provides a 30-day window for Council to revise the budget several times before its final approval.

If a Council fails to approve its budget at its first meeting, it must reconsider it, or an amended draft, again within seven days and it must continue to do so until it is finally approved – before1 July.

Once approved, the Municipal Manager must place the budget on the municipality's website within five days.

BUDGET IMPLEMENTATION

Implementation management – the Service Delivery and Budget Implementation Plan (SDBIP)

The Municipal Manager must within fourteen days of the approval of the annual budget (by 14 July at the latest) submit to the Mayor for approval a draft SDBIP and draft annual performance agreements for all pertinent senior staff.

An SDBIP is a detailed plan for implementing the delivery of municipal services contemplated in the annual budget and should indicate monthly revenue and expenditure projections and quarterly service delivery targets and performance indicators.

The Mayor must approve the draft SDBIP within 28 days of the approval of the annual budget (by 28 July at the latest).

This plan must then be monitored by the Mayor and reported on to Council on a regular basis.

Managing the implementation process

The municipal manager is responsible for implementation of the budget and must take steps to ensure that all spending is in accordance with the budget and that revenue and expenditure are properly monitored.

Variation from budget estimates

Generally, Councils may incur expenditure only if it is in terms of the budget, within the limits of the amounts appropriated against each budget vote – and in the case of capital expenditure, only if Council has approved the project.

Expenditure incurred outside of these parameters may be considered to be unauthorised or, in some cases, irregular or fruitless and wasteful. Unauthorised expenditure must be reported and may result in criminal proceedings.

Revision of budget estimates – the adjustments budget

It may be necessary on occasion for a Council to consider a revision of its original budget, owing to material and significant changes in revenue collections, expenditure patterns, or forecasts thereof for the remainder

of the financial year.

In such cases a municipality may adopt an adjustments budget, prepared by the municipal manager and submitted to the Mayor for consideration and tabling at Council for adoption.

The adjustments budget must contain certain prescribed information, it may not result in further increases in taxes and tariffs and it must contain appropriate justifications and supporting material when approved by Council.

Requirements of the MFMA relating to the contents of annual budgets and supporting documentation

Section 17 of the MFMA stipulates that an annual budget of a municipality must be a schedule in the prescribed format and sets out what must be included in that format. The various tables detailed in Section 4 and those additionally attached comply with the disclosure requirements.

Other Legislation

In addition to the MFMA, the following legislation also influences Municipality budgeting;

<u>The Division of Revenue Act 2010 and Provincial Budget Announcements</u>

Three year national allocations to local government are published per municipality each year in the Division of Revenue Act. The Act places duties on municipalities in addition to the requirements of the MFMA, specifically with regard to reporting obligations.

Allocations to the Municipality from Provincial Government are announced and published in the Provincial budget.

Section 18 of the MFMA states that annual budgets may only be funded from reasonably anticipated revenues to be collected. The provision in the budget for allocations from National and Provincial Government should reflect the allocations announced in the DORA or in the relevant Provincial Gazette.

<u>The Municipal Systems Act - No 32 of 2000 and Municipal Systems Amendment Act no 44 of 2003</u>

One of the key objectives of the Municipal Systems Act is to ensure financially and economically viable communities. The requirements of the Act link closely to those of the MFMA. In particular, the following requirements need to be taken into consideration in the budgeting process;

- Chapters 4 and 5 relating to community participation and the requirements for the Integrated Development Planning process.
- Chapter 6 relates to performance management which links with the requirements for the budget to contain measurable performance objectives and quarterly performance targets in the Service Delivery and Budget Implementation Plan.
- Chapter 8 relates to the requirement to produce a tariff policy.

Section 13 – Other supporting documents

Various supporting documents are attached to enable the reader a fuller understanding of the various processes involved. These are the following:

Annexure 1 – Main Budget Tables

Tables A1 to A10

Annexure 2 – Supporting Budget Tables

Supporting Tables SA1 to SA37

Annexure 3 – Tariffs, Charges and Fees for 2014/2015

The average increases for 2015/2016 are:

Service	**Domestic**	**Non-domestic**
Assessment Rates	10%	10%
Refuse	10%	10%
Sanitation	10%	10%
Water	10%	10% (consumption) 5% (fixed charges)
Electricity	*17% on average	*25% on average
** See tariff schedule for full detail*		

Annexure 4

Municipal Budget Circular for the 2014/15 MTREF - MFMA Circulars No. 70 & 72

Annexure 5 - Policies

1. Indigent Policy
2. Rates Policy
3. Credit Control Policy
4. Tariff Policy
5. Banking and Investment Policy
6. Budget Policy
7. Accounting Policy
8. Asset Management Policy

Section 14 – Municipal manager's quality certification

An annual budget and supporting documentation must be covered by a quality certificate in the format as per page 68 of the Government Gazette 32141 – 17 April 2009.

QUALITY CERTIFICATE

I, Christian Thabo Panyani, municipal manager of Mohokare Municipality, hereby certify that the annual budget and supporting documentation have been prepared in accordance with the Municipal Finance Management Act and the regulations made under the Act, and that the annual budget and supporting documents are consistent with the Integrated Development Plan of the municipality.

Christian Thabo Manyani

Municipal Manager of Mohokare Municipality (FS163)

Signature ____

Date ________________